Politicians Who Chase After Sports Franchises May Get Less than They Pay For

There is little doubt that having a big-league team is good for 'civic ego.' But whether it's good for the civic pocketbook is another question.

By William Fulton

When the Florida Suncoast Dome opens next year, a lot of civic and political leaders in St. Petersburg will finally see their dreams come true. After all, the political consensus to build such a costly stadium, designed especially for baseball, didn't come without a struggle. To give the go-ahead for an $85 million bond issue in 1986, the City Council had to overcome years of litigation involving the legality of the project, as well as a no vote from then-Mayor Edward Cole.

There's just one problem: St. Petersburg doesn't have a major-league baseball team, and so far the new stadium hasn't helped the city get an inside track on securing one. With no team forthcoming, professional stadium managers are trying to schedule events at the new dome — rock concerts, trade shows — to help defray its cost. Yet everyone, from the bookers to the politicians, admits that what St. Petersburg is really building is a baseball stadium. "Our projections show that we need a sports team to really make it a paying proposition," says Robert Obering, St. Petersburg's city manager.

Stadium experts have called the Florida Suncoast Dome everything from "a terrible mistake" to "fiscal hara-kiri." But in building it, St. Petersburg is trying to establish a lead in what is, in many ways, the last smokestack chase.

Indianapolis blazed the trail St. Petersburg is hoping to follow by building the Hoosierdome without a team, then luring the Colts football team away from Baltimore. As a result of that move, Maryland has embarked on a $216 million stadium-building program and tried to lure the Cardinals from St. Louis. (The team chose Phoenix instead.) Football's Raiders have made a profitable sideline out of being lured, first accepting a $6.7 million up-front loan to move from Oakland, Calif., to Los Angeles, then taking a non-refundable $10 million cash payment to move from the Los Angeles Coliseum to a new stadium in the tiny industrial Los Angeles suburb of Irwindale.

The National Basketball Association chose to place expansion teams in Charlotte, N.C., Miami, and Orlando, Fla. (along with Minneapolis), at least partly because all three were building new arenas. And a dozen or more cities have enlisted the help of their U.S. senators and representatives to seek expansion football or baseball franchises — that is, if they don't steal someone else's first. In undertaking all these efforts, cities are merely recognizing the power that professional sports holds in creating what Jacksonville, Fla., Mayor Tommy Hazouri calls "a real signature for a community." Cities are trying to use sports teams to help create a distinctive image that will give them a slight edge over the competition in attracting tourists, creating a good business climate and chasing after the rare smokestack prize still around.

"Cities are in the destination-building business today," says David Wilcox, vice president of Economic Research Associates, a Los Angeles-based financial consulting firm that works frequently with local governments. "And spectator sports is a way to do it."

But for the first time, franchise chasing has become politically risky for many cities and elected officials. Arthur T. Johnson, a political scientist at the University of Maryland-Baltimore County, writes that franchise chas-

William Fulton is editor of California Planning & Development Report.

Min-Jae Hong illustration

ing can often become a "lose-lose" situation for local politicians: You have to either subsidize the team or lose it. And neither sits well with the voters today. To succeed, politicians must fulfill what Rob Mier, assistant to Chicago Mayor Eugene Sawyer for planning and development, calls the "contradictory dictate" of delivering a team to the voters without charging the taxpayers for it.

There is little question that indiscriminate public support for a smokestack-chase effort to obtain a team has evaporated. Voters in New Jersey and San Francisco rejected proposals for new stadiums last November. In Maryland, Democratic Gov. William Donald Schaefer went to court to prevent a public vote on his plan to construct two new stadiums, one for the baseball Orioles and one for a football team. And leaders in many other cities say that while constituents want sports teams, they don't want to pay tax dollars to get them.

"It would be madness for us to go out and press a vote to sell bonds right now," says Steve Katich, executive director of the Denver Baseball Commission. "We'd get slaughtered."

At the same time, however, competition for franchises is more ferocious than ever, mostly because sports owners have refused to add new teams to leagues. Although basketball will expand into four new cities, professional baseball and football have added just two cities each in the past 20 years. In many cases, this has forced cities to make hefty financial promises in order to lure an existing team — promises that often may be used only as a bargaining chip, as the Houston Oilers recently used Jacksonville's $115 million offer (in guaranteed stadium revenues and ticket sales, backed by the business community) to renegotiate their lease at the Astrodome.

In the past few years, the most politically appealing aspect of a sports team has been the potential for a supposedly huge additional kick to the local economy. For example, Jacksonville's Hazouri, who devoted much of his first six months in office to an effort to secure a football team, calls it "an odor-free, pollution-free industry that is just as important as bringing in a high-tech company."

Cities must ask themselves if they can afford a sports subsidy, says stadium specialist Bruce Bingham.

But some economists are beginning to question whether sports teams can really produce the big bucks. In a report released by the free-enterprise-oriented Heartland Institute last year, Robert Baade, an economics professor at Lake Forest College in Illinois, argued that the image of huge numbers of dollars floating into a city's economy because of sports teams may really be a mirage; most of the money, he argued, may be diverted from other local entertainment businesses.

Stadium experts such as Bruce Bingham of Peat Marwick Mitchell, the accounting firm, take issue with Baade's statistical analysis, calling it amateurish. But few experts question Baade's conclusion that franchise chasing and the construction of stadiums are usually designed to satisfy the "civic ego" more than anything else.

In the 1960s, sports became big business for both team owners and cities. Expansion brought big-league sports to many new cities. Coincidentally, urban renewal efforts cleared the way for such publicly constructed facilities as Veterans Stadium in Philadelphia, Three Rivers Stadium in Pittsburgh, Busch Stadium in St. Louis and Shea Stadium in New York. Soon, building a stadium with public funds — often financed with general obligation bonds — became in many cities a major requirement in attracting or keeping a team.

While the largest cities viewed sports teams as an important piece of their overall cultural package, in many less populous cities the teams have become inextricably linked with the city's image. Cities such as Oakland, St. Louis, Kansas City and Cincinnati — none of them among the top 25 cities in population — all have proved to be great sports towns; in many cases, their sports franchises constituted validation that these cities were in the "big leagues."

"Sports means more in Oakland," says David Self, once the city manager and later a lawyer in Oakland's acrimonious lawsuits with the Raiders. "It makes less of a difference to New York, San Francisco or Chicago."

In the '70s and early '80s, the sports leagues virtually stopped expanding; at the same time, cities faced federal budget cutbacks and local tax limitations. That's when the

J. A. Giordano/Picture Group photograph

Voters' Demand: Teams Without Taxes

No matter what the true economic impact of a professional sports franchise, sometimes the hardest political problem a local official faces is fulfilling the contradictory demands of the voting population — which, more and more these days, means providing a team with limited public investment.

Some cities are committing public funds to stadiums only if they find teams to play there, while a few are using their skills as "public entrepreneurs" to help put together private financing deals.

Chicago mayoral assistant Rob Mier

In Chicago, for example, the late Mayor Harold Washington was in a particularly tough position because three beloved teams — the baseball White Sox and Cubs and the football Bears — all threatened to leave town unless the city gave them what they wanted.

According to mayoral assistant Rob Mier, the city continues to fight neighborhood groups for the Cubs' right to put lights in Wrigley Field and has pledged its assistance in dealing with neighbors for the Bears' new stadium, which is likely to be privately financed. A new White Sox stadium is likely to be financed through bonds. But Mier insists there are limits to the city's willingness to help the teams.

"We never said, 'We'll build a stadium, and you can operate it and keep the revenue, and you don't have to pay us anything,' " Mier says.

Meanwhile, in Maryland, Democratic Gov. William Donald Schaefer — still smarting from the loss of the Colts to Indianapolis — has pushed through a program for a $216 million two-stadium complex, financed in part by a statewide sports lottery. But perhaps the most important part of the Maryland proposal is the fact that it comes with strings attached. Not one shovel of dirt gets turned on the baseball stadium until the Orioles sign a long-term lease, and plans for the football stadium stay on the shelf until Baltimore secures a National Football League franchise.

The other way to minimize the political risk involved in franchise chasing, of course, is to let the private sector build the stadium. And this is an appealing alternative to many cities right now, particularly after Joe Robbie, owner of the Miami Dolphins football team, succeeded in building the first privately financed stadium in more than 15 years. Robbie built the stadium — after losing three stadium bond referendums — largely on the promised revenues from expensive corporate skyboxes.

Private financing is a real possibility in many cities because economic impact studies have identified myriad revenue streams — not just skyboxes — created by stadiums and teams. Rent, concessions and parking revenues have always been used to help subsidize stadiums, but stadium consultants are now pushing things like in-stadium advertising and in-stadium television facilities that can be leased to the networks.

But the biggest opportunity for private construction of stadiums is the "spinoff" real estate development potential. Real estate developers (who, increasingly, own sports teams) believe they can combine a stadium as a "loss leader" with surrounding real estate projects.

"In most cases, the stadium itself is not self-sufficient," says developer Martin Stone, who hopes to build a domed stadium in downtown Phoenix. "You have to say, 'What else is of value in the deal?' "

Stone hopes to combine the Phoenix stadium with a 48-acre mixed-used development. Of course, he's not doing it entirely privately — the city is providing the site on favorable terms as part of a redevelopment effort.

—W.F.

cutthroat competition really began.

At first, the cities jockeyed for expansion teams, but when the sports leagues moved slowly, cities began stepping up their "raiding parties" — particularly where football teams are concerned. Los Angeles lured the Raiders from Oakland, then won a massive antitrust judgment against the NFL, which tried to block the move. Subsequently, Indianapolis helped the Colts flee Baltimore in the middle of the night, while the New York Jets football team joined the Giants in the New Jersey suburbs. More recently, William Bidwill, owner of the St. Louis football Cardinals, entertained offers from Jacksonville and Baltimore before deciding to move to Phoenix.

Baseball's congressionally granted immunity from antitrust laws saved the sport from similar hostile franchise moves, but several franchises in both sports obtained new stadiums, rent subsidies and occasionally even favorable loans to stay put. Frightened by the departure of the Raiders, Oakland loaned the A's baseball team $15 million. To facilitate purchase by local corporations, Pittsburgh loaned the Pirates more than $20 million, although the money must be paid back if the team ever leaves.

Steve Leonard photograph

And in perhaps the most notorious episode, Philadelphia granted the Eagles football team rent concessions and skybox revenues to keep them in town. As a franchise, the Eagles were healthy, but owner Leonard Tose had piled up tens of millions of dollars in gambling debts and threatened to move to Phoenix unless the city helped him out. (Tose eventually sold the franchise to pay his debts.)

Politicians and sports boosters have come more and more to rely on one justification for chasing sports franchises: the supposed economic bonanza.

Why are cities willing to go to such extreme lengths just to keep a bunch of highly paid athletes playing at home? There are many reasons, but as the cost of sports subsidies grows — and as the economic competition among cities escalates — local politicians and sports boosters have come to rely more and more on one: the economic bonanza that a professional sports franchise supposedly provides. To sell sports subsidies to the voters, city after city has rolled out consultants' studies showing that a new or retained team — usually playing in a stadium subsidized by the public in some way — would pump tens of millions of dollars a year into the local economy.

Around the time the Eagles threatened to leave Philadelphia, for example, the Wharton School of Finance at the University of Pennsylvania produced a report estimating that professional sports added $500 million a year to the region's economy. More typical are estimates in Jacksonville and Denver that a new franchise would enlarge the local economy by $60 million to $70 million a year.

The economic gurus' conclusions can sometimes push important politicians one way or the other. During most of last fall's campaign, for example, New Jersey Gov. Thomas H. Kean, a Republican, was wary of a proposal to float $185 million in general obligation bonds to build a baseball stadium in the Meadowlands. (The state has no team.) Then a report by the Touche Ross accounting firm commissioned by the New Jersey Sports and Exposition Authority predicted that, with a baseball team, the stadium would add $118 million to the state's economy each year. Just before the election, Kean decided to support the bond issue, which failed anyway.

Underneath all the statistical analysis, the size of the projected economic impact rests largely on two assumptions that consultants admit they must make on a subjective basis without much data. One is an estimate of how much of the money spent at the stadium (and hotels and restaurants nearby) is really "new" money to the economy. The other is the size of the economic "multiplier" — the extent to which the money ripples through the local economy, being spent again and again.

"It becomes a judgment call — all of it," says Ben Stevens, an economist who serves as director of the Rhode Island-based Regional Science Research Institute, which has worked on several sports economics studies.

Touche Ross' recent study for the Denver Baseball Commission, which predicted $68 million in economic benefits for the Denver metropolitan area, provides a good example. Touche Ross calculated that the team would bring Denver $46 million in "direct" spending — stadium receipts, league revenues, pre- and post-game entertainment spending, and so on. Of that figure, the study predicted that $34 million (74 percent) would remain in the Denver economy and that the rest would leave, mostly for out-of-town player and team expenses.

Touche Ross pegged the "gross" multiplier at 2.0, meaning every dollar spent at the stadium that stays in the Denver economy will produce another dollar in additional spending locally — creating another $34 million in economic benefits, for a total of $68 million. In choosing 2.0, the firm said it was being consistent with multipliers used by the Denver Regional Council of Governments. Nevertheless, had Touche Ross pegged the figure at 1.5 or 2.5 (the low and high end of the range in currently accepted practice), the final figure would have been swung $17 million in either direction, as low as $51 million or as high as $85 million.

Of the $46 million in direct spending, some $7.4 million was attributed directly to tourist spending on hotel rooms, restaurant meals and similar items (although two-thirds of the tourists would be in town anyway). But that $46 million also includes $25 million in stadium receipts, tickets, parking and concessions from all fans — as well as $4.2 million for pre- and post-game travel specifically associated with local fans.

In other words, most of the direct spending (some $36.6 million) would come from local fans who might or might not spend the money in the local economy some other way in the absence of a team.

Doug Newton, a financial analyst at Touche Ross' Newark, N.J., office who worked on the Denver study, acknowledges that the $68 million is only a rough estimate. "This is clearly an inexact science," he says. But he defends the result as being largely correct, saying that if "new" money in the economy is overestimated by this method, then other kinds of spending — such as retail shopping by out-of-town baseball fans while visiting Denver — are underestimated or not counted at all.

Unfortunately, after-the-fact studies that seek to double-check the results of these predictions are few indeed — and not very useful for double-checking, since they cannot confirm economic benefit empirically, but, rather, must estimate it in the same fashion as before-the-fact studies. A recent University of New Orleans report on the economic impact of the Superdome, estimating a $900 million economic benefit between 1975 and 1984, used the same sort of gross multiplier (in this case, 1.5) as the Denver study and others like it.

The question of how much sports-related spending is "new" and how much is "diverted" is still up in the air, despite its critical importance in the final financial estimate. Says Touche Ross' Newton: "Economists argue that

one back and forth and up and down." Yet it received little attention in public debates over sports subsidies until last year, when the Heartland Institute published Baade's critical study.

"Sports . . . has the potential for enhancing a city's economy only to the extent that sports spending is initiated by fans not residing in the urban area," he wrote. Baade also conducted a statistical analysis of several cities that had acquired sports teams in the '60s, concluding that sports spending produces mostly low-paying service jobs and that therefore a sports-oriented economic development strategy can contribute to a low-skill job development pattern. He is now trying to develop an economic model that helps estimate the local-tourist spending breakdown and also weighs sports subsidies against alternative public investments.

Many other sports finance experts argue vehemently that Baade's statistical methods are suspect. But nearly all of them agree that the answer to the question of whether sports spending is truly made up of "imported dollars" is a very nebulous one.

"If there were no Saints and no Superdome, these people would be out buying Dixie Beer and crawfish or something," says Eddystone C. Nebel III, a professor in the School of Hotel, Restaurant and Tourism at the University of New Orleans and project coordinator for the Superdome economic study. Nebel says he and his colleagues tried to estimate the percentage of local fans — and did not count their spending as part of the economic impact. But such caution is a rarity.

Former St. Petersburg Councilman Bill Bond played a top role in getting the stadium approved.

"Often, either the consultant or the client really wants it to be a big number," says Stevens, the economist who produced the Maryland stadium estimate. "They look at the dollars spent, and they say, 'That's all new.' And we say, 'That can't all be new, people don't take money out of their savings accounts to go to ball games.'

"So it becomes a compromise between the people paying for the study and the economist who wants reasonable numbers but doesn't have good data," he adds.

Yet this numerical guesswork is later presented to the public — by local politicians and sports boosters — as indisputable proof that a city or state government should subsidize a sports team or a new stadium. "The reason economics plays an important role," says Baade, "is that it's hard to sell the public on a $100 million investment on the basis that it'll help the city's image or make everybody feel good. So taxpayers can sometimes be swayed by an economic argument that just doesn't exist."

In fact, mayors, governors and business leaders who push hard for professional sports teams have something else in mind — something Baade has aptly described as "civic ego." There's a strong perception around the country that flashing your city's name across the television screen every weekend or seeing it in the box scores every day is priceless publicity that the city or state can cash in on when it tries to lure tourists or businesses.

"The Illinois Department of Tourism spends probably $10 million a year promoting the state," says Mier, the Chicago mayoral assistant. "We probably get that much just from the Cubs."

And cities fight so hard to hang onto their teams not just because of all that free publicity but also because local politicians are afraid they'll look incompetent — particularly to business — if the team leaves.

When a city or region is swept up in a sports frenzy, the mayor, the governor and other local boosters can become heroes for bringing a team to town. But when exaggerated economic forecasts are taken away and sports has to compete with other public priorities on what might be called a "level playing field," the political debate can be difficult to win.

New Jersey's failed effort to use general obligation bonds to build a baseball stadium is a good example. The Meadowlands sports complex has been widely admired for its ability to self-finance its facilities. Profits from its horse-racing track have subsidized construction and operation of Giants Stadium, where two NFL teams play. The complex has even contributed $60 million in surpluses to the state treasury over the years.

But race-track revenues have flattened in recent years, and in 1987 the New Jersey Sports and Exposition Authority was forced to go to the legislature. Not only did the authority ask for the $60 million back (the answer was no), but it also asked for $185 million in state bonds to build a baseball stadium. The legislature approved the bonds and placed them on the ballot.

During the campaign, the supposed economic bonanza identified by Touche Ross became an issue. But in pros-

Chris Cowell photograph

perous New Jersey, the economic argument didn't sell. Instead, two other issues emerged. First was the advisability of building a stadium with no team in a metropolitan area that already had two other baseball teams. And second was the sports authority's own fiscal responsibility. The voters responded by clobbering the bond issue, not just in southern New Jersey, far from the Meadowlands, but in the north Jersey areas around the sports complex itself.

What has Jacksonville lost in its two high-profile attempts to grab a sports team? 'I don't think we've lost anything,' says Mayor Tommy Hazouri.

A legitimate, level-playing-field political debate over sports subsidies doesn't always mean that sports subsidies will lose. In a wide array of circumstances — some of which already exist around the country — the pursuit of teams and use of public subsidies may be the right thing to do, as a matter of both public policy and politics.

For example, in prosperous, growing communities, such a strategy may be politically acceptable because the citizens can afford it. "A community has to look at its own capacity to absorb the subsidy," say Bingham, the stadium finance specialist at Peat Marwick Mitchell in New York. "If it's a flush community, it's more capable of taking the gamble."

St. Petersburg is one example of a prosperous city willing to take a gamble by paying $85 million for a publicly financed stadium with no team. "There's no doubt about it — having a facility in place will give you an advantage in getting a team," says Bill Bond, who stepped down as a city councilman last year after playing a top role in getting the stadium approved.

Another such city is Jacksonville, where Mayor Hazouri has made acquisition of a professional football team a top priority and has made two high-profile attempts to grab one — the Houston Oilers and the St. Louis Cardinals. "What have we lost?" Hazouri asks. "I don't think we've lost anything. The political risk is in not attempting to get a team at all." But it's questionable whether a declining Rustbelt metropolis ought to saddle itself with the same kind of expense if the expected economic benefits may prove illusory.

In a few cities, sports might actually serve as a logical component of the local economic development strategy. Indianapolis was subject to some criticism for building the Hoosierdome without a team, even though high-profile Mayor William Hudnut reaped considerable political benefits when the football Colts moved from Baltimore. Even without the Colts, though, Indianapolis' economic strategy calls for the city to become a national center for amateur sports. The city had already lured the Amateur Athletic Union's national headquarters, for example. And the Hoosierdome, which also hosts conventions, helped bring national amateur events to Indianapolis.

Similarly, in a few instances, the local leadership might build political consensus around a stadium as an investment in downtown redevelopment. The recent research on the much-maligned Superdome in New Orleans has turned up evidence that it is possible.

A luxurious stadium built at a cost of $160 million, the Superdome has run operating deficits as high as $12 million a year — largely because the city never attracted a baseball team — and used to be cited frequently as an example of a public works project gone awry. Yet, over time, the Superdome's presence in a near-slum downtown area has led to something of a renaissance, with office buildings, hotels and now a shopping center being constructed nearby. Apparently — and this may serve as a lesson in the true value of investing in a team versus a structure — the Superdome's greatest attraction to other developers is not the Saints football team or the Sugar Bowl, but rather the stadium's vast and inexpensive parking garage.

In those cities where sports does lose the political debate, the reason may be, appropriately enough, that other public policy concerns are more important. In the current frenzy, sometimes the cost of obtaining a team may not be money (which may be put up by business leaders, not taxpayers; see accompanying article), but rather the sacrifice of a long-term policy objective. This is what happened in Sacramento. The rapidly growing state capital of California has all the makings of a major-league town. (It's already the 21st-largest television market in the country.) But when local developer Gregg Lukenbill bought the Kansas City Kings basketball team, he and a few other landowners effectively traded their promise to bring the team to Sacramento (and also seek a baseball team) for permission to develop an area the city voters had previously set aside for agriculture. The City Council—hungering for big-league status—eagerly went along with the deal.

American cities have been lucky in playing the franchise-chasing game with optimistic economic estimates. Since the luring of teams became big business in the '70s, no city trying to attract a team has gotten burned by its own financial commitments. Even New Orleans eventually did well with the Superdome, thanks in large part to three Super Bowls (which even skeptics agree are an economic bonanza because of all the out-of-towners they attract). But the market conditions required to operate a team successfully are not well understood, either by the cities or by the sports leagues; many teams simply scrape by in large markets where they should succeed, especially in baseball.

It's entirely possible that political leaders in some fairly large city could produce impressive economic numbers, invest heavily in a stadium, persuade a league to give them a team and then find themselves holding the bag for a financial failure. If that happens, maybe the optimistic economic assumptions will be reassessed, and local politicians will start using more realistic numbers to decide whether a sports team is right for their city. More likely, however, they'll keep playing the franchise game as long as they can. Big civic egos can be hard to rein in. ☐